

Department Of Commerce
Key A-123 Decisions
February 15, 2006

In August, 2005, the Department of Commerce (DOC) developed an implementation plan pursuant to the requirements of OMB Circular A-123, *Management's Responsibility for Internal Control, Appendix A, Revised (A-123)* and addressed significant milestones and major decisions pertaining to those requirements. Since the implementation plan was submitted to OMB, DOC has completed several milestones related to the implementation and made key decisions with respect to the A-123 Appendix A requirements. This document outlines those milestones and decisions.

Organizational Structure

Otto J. Wolff, the Chief Financial Officer and Assistant Secretary for Administration of DOC, established a Senior Management Council (SMC) in June 2005, to provide oversight for the A-123 implementation process. The Council is composed of the Chief Financial Officers of each DOC bureau, as well as senior managers from the Chief Information Office, Budget, Acquisition Management and Administrative Services offices. The SMC is co-chaired by Lisa Casias, Acting Deputy Chief Financial Officer and Director for Financial Management, and John Phelan, Director of the Office of Management and Organization (OMO). Since August 2005, the SMC has held monthly meetings to coordinate compliance, address issues and make decisions in connection with the A-123 process. All decisions made by the SMC are documented in meeting minutes and retained on file.

The Senior Assessment Team (SAT), appointed by the SMC, is composed of representatives of those bureaus and offices which have a material impact on DOC's financial reporting. The SMC oversees and works closely with the SAT; however, the SAT conducts the day-to-day activities on this project, including the review, documentation, and testing of the Department's internal controls. During the first quarter of FY 2006, the SAT participated in weekly meetings in order to develop the first phase of A-123 planning documentation and to establish sub-teams to work on other plan milestones. Currently, the SAT is meeting as needed, in response to issues raised by the sub-teams and to plan other A-123 activities. The Testing Team, a sub-group of the SAT, was formed in January 2006, and is meeting on a weekly basis to develop the testing approach and plan. This sub-group will continue to meet through March 2006.

The lists for both the SMC and SAT members are included in Attachment 1.

Scope Of Financial Reports

The Department has included basic quarterly and year-end consolidated financial statements in the assessment of internal control over financial reporting. The basic

financial statements include the Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and the accompanying notes to the financial statements. In addition, the Department has included the budgetary execution reports, including the SF-132, *Apportionment and Reapportionment Schedule* the SF-133, Report on *Budget Execution and Budgetary Resources*.

The Department included these financial reports in the A-123 process because they have a material effect on significant spending, budgetary, or other financial decisions and, in some instances, are used to monitor specific activities. The inclusion of these financial reports was approved by the SMC as part of their review and approval of Department's August 2005, implementation plan.

Department Programs

The Department administers programs which significantly impact its budget, have a high degree of risk, or are of particular interest to management. At several SMC meetings, the group discussed the Department programs that might be included in the A-123 process. Office of Financial Management (OFM) staff disseminated a list of major Departmental programs, listed as "Programs, Projects, and Activities (PPAs)" in the *Summary of Resource Requirements* section of the budget to the bureaus for their review. Based upon this listing and the identification of other high-profile programs, the bureaus provided an initial list of their major programs for inclusion in the A-123 process. This initial list of key programs was reviewed by the SMC at the December 2005 meeting. OMO is currently finalizing this list.

Materiality

In accordance with A-123, the Department developed a materiality level for the assessment of internal control over financial reporting. The materiality levels for planning, design and assessment were developed using the guidance provided in the *GAO/PCIE Financial Audit Manual, Section 200 – Planning, Chapter 230, Determine Planning, Design, and Test Materiality*.

The initial analysis was based upon the FY 2004 Consolidated Financial Statements. The materiality base was determined by taking the greater of total assets (\$11,936,307,000) and total expenses (\$9,044,876,000), with total assets being greater. The planning materiality was 3% of total assets, or \$358,089,000. Design materiality was determined to be 1/3 of the planning materiality, or \$119,362,000; and assessment materiality was determined to be 75% of design materiality, or \$89,521,000.

In December 2005, the Department updated the materiality level to reflect the data reported in the FY 2005 Consolidated Financial Statements. Total assets (\$12,730,176,000) exceeded total expenses (\$8,438,306,000), so assets were used as the materiality base. The planning materiality was 3% of total assets, or \$381,905,000. Design materiality was determined to be 1/3 of the planning materiality, or \$127,300,000; and assessment materiality was determined to be 75% of design materiality, or

\$95,475,000. The Department is using these materiality levels as a basis for determining which bureaus and financial statement line items are subject to test work. The SAT is drafting a crosswalk of the material financial reporting line items to the key processes discussed below.

Materiality was a discussion topic at the September and October 2005 SMC meetings. The materiality analysis, as discussed above, was approved by the SMC at the November meeting. The SMC was provided a copy of the updated materiality calculations based on the FY 2005 financial statements at the December meeting.

Identification of Key Processes

The key processes and sub-processes were identified by the SAT and approved by the SMC at the December 2005 meeting (see Attachment 2). These processes were identified because they significantly impact the Department's financial management and reporting, and support the material balances on the financial reports. To define these key processes, the SAT reviewed the financial statements and related disclosures, auditor-provided cycle memoranda and significant control summaries (where available), and other pertinent information. As discussed in the materiality section, the SAT is drafting a crosswalk of related financial reporting line items to the key processes.

During the 2nd quarter of FY 2006, the SAT documented the control objectives, risks, key controls, and risk assessments for the key processes and sub-processes on standardized templates. The SAT will use the standardized templates in conjunction with the materiality analysis to develop a test plan. The test plan will document the bureaus and control activities subject to testing, test procedures, documentation requirements, and sampling requirements. The testing plan and related documentation will be completed by March 31, 2006. The testing of internal controls will be integrated with the internal control testing required by FISMA.

Attachment 1:

- **DOC Senior Management Council**
- **DOC Senior Assessment Team**

Attachment 2: DOC Processes/Cycles and Sub-Processes/Sub-Cycles